

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04

NSAE-00 RSC-01 SIL-01 OPIC-03 SAM-01 AID-05 L-02

OMB-01 TRSE-00 XMB-02 CIEP-01 PM-03 NSC-05 SP-02

SS-15 DODE-00 PA-01 USIA-06 PRS-01 /081 W

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R 030847Z FEB 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 1599

INFO AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

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EO 11652: N/A

TAGS: EGEN, ELAB, PO

SUBJ: U.S. BUSINESS COMMUNITY CONCERNED ABOUT PORTUGAL

REFS: (A) LISBON 402, JAN 23, 1975

(B) LISBON 5266, DEC 2, 1974

(C) LISBON 5351, DEC 5, 1974

SUMMARY: RECENT EVENTS, ESPECIALLY CONTROVERSY OVER LABOR LAW (REFTEL (A)) HAVE CAUSED SERIOUS CONCERN WITHIN CERTAIN ELEMENTS OF U.S. BUSINESS COMMUNITY. ELECTRONIC ASSEMBLY SECTOR IS STILL THE MOST CONCERNED. HOWEVER, IT APPEARS THAT MOST FIRMS WILL CONTINUE OPERATIONS AT LEAST UNTIL ELECTIONS. EMBASSY WILL CONTINUE ENCOURAGE U.S. BUSINESSMEN TO CAREFULLY WEIGH ACTIONS. END SUMMARY.

1. SERIOUS CONCERN ABOUT BUSINESS CLIMATE HAS BEEN EXPRESSED RECENTLY TO AMBASSADOR AND TO OTHER EMBASSY OFFICIALS BY IMPORTANT ELEMENTS OF U.S. BUSINESS COMMUNITY. THIS HEIGHTENED CONCERN RESULTS FROM (A) PUBLIC CONTROVERSY OVER LABOR LAW AND WHAT IS SEEN BY BUSINESSMEN AS COMPLETE PCP VICTORY GAINED WITH LIMITED OFFICIAL USE

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SUPPORT OF AFM, (B) FEAR THAT LAW WILL LEAD TO PRODUCTION

STOPPAGES WITH IMPUNITY AND NEW WAVE OF LABOR UNREST, (C) ENACTMENT INTERVENTION LAW 660/74 (REFTEL (B)) AND RECENT SHERATON HOTEL PURGING OF MANAGER, (D) BELIEF THAT MINISTRY OF LABOR IS COMMUNIST-DOMINATED AND INCAPABLE OF PROVIDING A FAIR HEARING, AND (D) DISBURBING RUMORS ABOUT LONG-ANTICIPATED EMERGENCY ECONOMIC PLAN.

2. THE ELECTRONIC ASSEMBLY SECTOR REMAINS THE MOST CONCERNED AND MOST VOCAL. CAUGHT BETWEEN HIGHER WAGE BILLS AND LOWER PRODUCTIVITY ON ONE HAND AND A SEVERELY DEPRESSED INTERNATIONAL MARKET FOR THEIR OUTPUT ON THE OTHER, IT IS IN FINANCIAL STRAITS. SO FAR SEVERAL FIRMS HAVE BEEN ABLE TO CONTINUE OPERATIONS BY CUTTING DOWN ON THEIR WORK FORCE OR BY MAKING DEALS WITH GOP FOR TAX EXEMPTIONS OR OTHER BENEFITS. A POSSIBLE DEMAND IN THE NEAR FUTURE FOR WAGE INCREASES OF 25-35 PERCENT COULD SPELL THE END. THESE PROBLEMS ARE NOT CONFINED TO U.S. FIRMS; PLESSY (U.K.), PHILIPS AND GRUNDIG, FOR EXAMPLE, ARE ALSO SUFFERING.

3. NOT ALL U.S. FIRMS HAVE SERIOUS DIFFICULTIES. SOME CONTINUE TO OPERATE NORMALLY (GIVEN THE UNCERTAINTY) AND REMAIN PROFITABLE BUT ONLY A COUPLE ARE CONSIDERING EXPANSION OR EVEN NEW INVESTMENT. SOME HAVE ALSO BEEN ABLE TO DEAL ON A REASONABLE BASIS WITH THE LABOR MINISTRY. IN RESPONSE TO DISCUSSION ABOUT U.S. PROTESTS OR PRESSURE, ONE U.S. FIRM, AN ACCOUNTING FIRM WHICH HAS OTHERS AS CLIENTS, COUNSELED EXTREME CAUTION IN ORDER AVOID HARMFUL REPERCUSSIONS AGAINST OTHER U.S. FIRMS WHICH DO NOT HAVE SERIOUS PROBLEMS.

4. AT THIS MOMENT IT APPEARS THAT MOST U.S. FIRMS WILL CONTINUE TO OPERATE, AT LEAST UNTIL THE ELECTIONS. A MAJOR ELECTRONIC ASSEMBLY FIRM, AUDIO MAGNETICS (800 EMPLOYEES) IS BEGINNING NEGOTIATIONS TO REDUCE ITS WORK FORCE BY ABOUT 20 PERCENT. ANOTHER FIRM, GENERAL INSTRUMENTS, IS SERIOUSLY CONSIDERING SUSPENDING PLANS FOR A MAJOR INVESTMENT BECAUSE OF TECHNICAL DIFFICULTIES WITH PREVIOUS AGREEMENT CONCLUDED WITH GOP. THERE ARE UNSUBSTANTIATED REPORTS THAT ONE OR TWO OTHER FIRMS FACE SERIOUS ECONOMIC DIFFICULTIES BUT NO DETAILS ARE AVAILABLE.

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5. COMMENT: UNCERTAINTY IS THE MAIN BUGABOO OF FOREIGN BUSINESSMEN OPERATING IN PORTUGAL AT THE MOMENT. IN THE ABSENCE OF A CLEAR DECLARATION OF OVERALL POLICIES, THEY TEND TO GENERALIZE ON THE BASIS ISOLATED ACTS. THIS TENDENCY IS EXAGGERATED AMONG THE MANAGERS OF SMALLER FIRMS HAVING ONLY LIMITED EXPERIENCE ABROAD. WE BELIEVE THAT THE LONG-AWAITED ECONOMIC AND SOCIAL PROGRAM (REFTEL (C)) WILL SPELL OUT THE RULES-OF-THE-GAME NEEDED TO DISPEL THIS UNCERTAINTY. AT

PRESENT, SIGNS POINT TO A MODERATE DOCUMENT THAT PRESERVES  
THE PRIVATE SECTOR PRETTY MUCH INTACT.

6. EMBASSY WILL CONTINUE TO ENCOURAGE U.S. BUSINESSMEN TO  
CONSIDER THEIR ACTIONS CAREFULLY.  
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